

VZCZCXRO9590
RR RUEHFL RUEHKW RUEHLA RUEHROV RUEHSR
DE RUEHAK #1286/01 1990955
ZNY CCCCC ZZH
R 170955Z JUL 08
FM AMEMBASSY ANKARA
TO RUEHC/SECSTATE WASHDC 6875
INFO RUCNCIS/CIS COLLECTIVE
RUEHZL/EUROPEAN POLITICAL COLLECTIVE
RUEHGB/AMEMBASSY BAGHDAD 1280
RUEHIT/AMCONSUL ISTANBUL 4488
RUEUITH/ODC ANKARA TU
RUEAIIA/CIA WASHDC
RHEHAAA/NSC WASHDC
RUCPDOG/DEPT OF COMMERCE WASHDC
RHEBAAA/DEPT OF ENERGY WASHINGTON DC

C O N F I D E N T I A L SECTION 01 OF 04 ANKARA 001286

SIPDIS

EEB FOR A/S SULLIVAN
SPECIAL ENVOY FOR EURASIAN ENERGY GRAY
EEB FOR ENERGY COORDINATOR MANN
EUR FOR DAS BRYZA

E.O. 12958: DECL: 07/17/2018

TAGS: [ENRG](#) [EPET](#) [TU](#)

SUBJECT: CORRECTED: SPECIAL ENVOY GRAY URGES TURKEY TO MOVE
FORWARD ON NABUCCO NOW *** CORRECTED COPY *** THIS
MESSAGE REPLACES ANKARA 1284.

REF: A. ANKARA 1085

[1](#)B. ANKARA 1172

Classified By: Ambassador Ross Wilson for reasons 1.4 (B) and (D)

[1](#)1. (C) Summary. Special Envoy for Eurasian Energy C. Boyden Gray discussed regional energy issues and moving Caspian gas westward with Turkish PM Erdogan, Energy Minister Guler and others on July 11. Erdogan reiterated Turkey's strong support for Nabucco and the Turkey-Greece-Italy gas projects but Energy Minister Guler emphasized almost exclusive interest in securing gas for Turkey. Prime Minister Erdogan and MFA U/S Apakan stressed Turkey's strong commitment to the Nabucco pipeline as a "strategic priority." But, Apakan admitted there are some "misunderstandings" about Turkish energy policies, evident in the overarching quest of BOTAS to secure sufficient volumes of gas at a reasonable price to meet Turkey's domestic demand. Apakan and Energy Minister Guler stressed the importance of working with Iraq to secure mid-term supplies of natural gas for Nabucco and TGI. Apakan hinted that his own government was not well coordinated, and suggested the U.S. and Turkey form informal, working-level groups to pursue Caspian and Iraqi gas together. Special Envoy Gray responded positively to Apakan's suggestion to convene such informal working groups, and he stressed to all the Turks he met with the need for real progress now in bringing Caspian gas to Europe by clarifying sales and transit terms for Azeri gas to Turkey and European markets beyond. This would help secure infrastructure development that will in turn attract more gas to meet Turkish and European needs. During the meeting with Erdogan, Ambassador expressed condolences for the Turkish National Police officers killed in the July 9 attack on Congen Istanbul and highlighted the need for cooperation on terrorism with which Erdogan agreed. SE Gray was accompanied by EU DAS Matt Bryza. End summary.

Erdogan: Gas to Europe is a Strategic Priority

[1](#)2. (C) A well-briefed and confident PM Erdogan told Ambassador Gray that the Turkish government attaches high priority to Nabucco and TGI. The problem is resources to supply them. To work on this, he recently held high-level talks with Turkmenistan, Azerbaijan, Iraq and Iran. Meeting Turkey's internal energy demands is also a key driver for his

government's efforts. Erdogan said energy -- and especially, the Nabucco gas pipeline -- is a strategic issue for Turkey, and he urged that our countries work together urgently to accelerate urgently the export of Central Asian gas to Turkey and Europe. Erdogan added that energy cooperation was an important topic of his discussions in Baghdad the previous day.

¶3. (C) Turkmenistan's continuing close relations with Russia mean that the Nabucco partners should move quickly to get a piece of Turkmen gas, Erdogan said. Turkmen President Berdimuhamedov has "promised" 10 bcm, and Erdogan thought this amount could be raised to 20 bcm if pressed. He said Turkmen-Azeri disputes over Caspian resources are a "thing of the past." Significant gas volumes for Nabucco could be provided via an interconnector from Azeri and Turkmen offshore platforms in the Caspian Sea. Erdogan solicited U.S. support.

¶4. (C) Special Envoy Gray said the Caspian holds great potential to supply gas to Turkey and Europe. Turkey's main focus should be on reaching transit and supply terms with Azerbaijan that would ensure sufficient quantities of gas are available to facilitate investment in the Southern Gas corridor. Erdogan said his talks with Azeri President Aliyev were positive. The latter plans to send gas to Nabucco, though serious questions remain whether Azerbaijan will be able to produce sufficient gas at the right time to satisfy Turkey's demand as well as Nabucco investors. Erdogan expressed disappointment in the slow ramp up of Azeri gas exports to Turkey which amount to only 3 bcm, despite an

ANKARA 00001286 002 OF 004

agreement for 6.3 bcm. He mused it might take 5-10 years for Azeri gas (Shah Deniz Phase II) to ramp up to full capacity. This made Iraqi gas very important. Erdogan said his July 10 talks with PM Maliki had gone well, gas from Akkas could be ready to export in 3-4 years, and there is gas in northern Iraq, albeit at sometimes significant depths. Erdogan also referred to a supposed new gas find in Saudi Arabia that could potentially be exported to Turkey and Europe. DAS Bryza stressed the importance of Turkey ensuring significant volumes of Azerbaijani gas are able to make their way to Europe across Turkey even after Turkey consumes some of that gas. Otherwise, without the prospect of elevating its strategic importance as a key gas supplier to Europe, Azerbaijan may decide not to accelerate its gas production, thereby leaving less gas for both Turkey and the EU.

Guler: Turkey's Needs Come Before Nabucco

¶5. (C) Energy Minister Guler described Erdogan's meeting in Iraq as a turning point of the relationship that opened the door to increased Turkish investment and opportunity in Iraq's oil and gas sector. Guler said the GOI is divided on the export route for Akkas gas. The central administration in Baghdad represented by Oil Minister Shahrastani favors export through Syria via the Arab Gas Pipeline (AGP). The KRG would like to see a direct route from Iraq to Turkey, (via the right-of-way of the existing Kirkuk-Yumurtalik oil pipeline), as proposed by the Turks. Guler cautioned that AGP might send gas southward to Egypt, which would undermine our strategic interest in moving gas to Europe.

¶6. (C) Guler stressed Turkey's urgent need for more gas. He claimed Turkey and Azerbaijan had reached an agreement in principle on Turkey buying 8-9 bcm of new Azeri gas for domestic consumption. Any Shah Deniz volumes beyond this amount can be exported to Europe, if Azeris which, and Turkey is ready to discuss gas transit arrangements. DAS Bryza added that Azerbaijan's gas development plans aim, more than anything else, to establish a strategic connection with Europe. Without that connection, the Azeris may choose not to develop Shah Deniz II at all right now. This would harm everyone, including Turkey. Guler

replied that if more gas is needed to develop the Southern Corridor, Azerbaijan should expedite its investments and produce more gas. Turkey cannot sacrifice its energy security for the sake of Europe. Turkey does not need the Nabucco pipeline to deliver new gas to Europe; there is sufficient spare capacity in the Turkish grid to transit up to 5 bcm to the Turkish border.

¶17. (C) Guler was downbeat on the availability of Turkmen gas. He expressed pique about Europe's two faces toward Nabucco, one supporting the project and the other signing contracts with Gazprom for SouthStream. Special Envoy Gray said he understands Turkey's frustration with a Europe that does not act with a single voice on energy security matters. Guler was hopeful that additional sources of gas (and oil) in the Black Sea will be developed soon. Chevron and ExxonMobil are interested in investing in Turkey. Turkish Petroleum (TPAO) General Manager Uysal said 3-D seismic work has been carried out in several of Turkey's Black Sea blocks and are promising. Uysal estimated that Turkish exploration blocks may contain 8 billion barrels of oil. (Note: In a separate meeting, Chevron told us that TPAO's license price is "unreasonably high" and that TPAO expects the international partner to foot the entire capital costs for exploration, something Chevron has thus far been unwilling to do.)

BOTAS: Turkey Needs Gas

¶18. (C) BOTAS Chairman Saltuk Duzyol told Special Envoy Gray that finding new gas volumes tops his agenda because of an 18 bcm gas shortfall he faces by 2012. PM Erdogan's talks in Iraq left him thinking that Iraqi gas will probably not be exported to Turkey or Europe. Duzyol speculated that Iraq

ANKARA 00001286 003 OF 004

would build LNG terminals in the South for export and Akkas gas would likely go to Syria and Egypt. Duzyol said he tried to convince the Iraqis of the strategic importance of linking to Europe and asked Gray to help reinforce this point.

¶19. (C) Duzyol praised the European Commission's idea for a Caspian Development Company (CDC). He said that CDC makes sense for smaller oil and gas companies like Turkish Petroleum (TPAO), but OMV and RWE are against it. Turkey is losing confidence in the Nabucco partners because everyone except Romania is also talking to the Russians. Duzyol said Turkey had resisted Russian pressure to build Blue Stream II. But reliance on Russia for over 65% of its current gas supplies now and a West Line contract for 6 bcm (for Istanbul) that expires in 2011 could force Turkey to join South Stream.

¶10. (C) DAS Bryza commended Duzyol for stopping Blue Stream II and keeping the door open for Nabucco. The U.S. will keep working with Azerbaijan and Iraq to encourage the development of their gas fields; our shared challenge was to help Turkey meet its demand for natural gas while also realizing the Southern Corridor. Bryza asked in return that Duzyol work with Azerbaijan to conclude a supply and transit agreement for gas to Europe. Duzyol said Turkey is currently negotiating an IGA to provide for gas purchases and transit from Shah Deniz Phase II. He made clear that Turkey does not wish to become a re-seller of Azeri gas to Europe (reftel a) (and would be willing to sign a clause to that effect in a gas sales/purchase agreement), but would like flexibility, in line with EU law, to sell gas should Turkey find itself oversupplied.

U/S Apakan: Proposes U.S.-Turkey Working Groups

¶11. (C) MFA U/S Apakan said that energy is a top foreign policy issue for Turkey, and called Nabucco and TGI priority projects for strategic reasons. Turkey is ready to open discussions with Gaz de France as a possible 7th partner for

Nabucco. PM Erdogan's July 10 trip to Baghdad opened the way for increased cooperation on oil, gas, electricity, transportation and other matters. Turkey would like to host, in Istanbul, a regional investment conference on Iraq, as was discussed with U/S Jeffrey and A/S Sullivan in April.

¶12. (C) U/S Apakan asked Special Envoy Gray to expand bilateral cooperation and information sharing on energy issues. He suggested the formation of a working-level group or groups or other coordination mechanisms on Caspian and Iraqi gas. This would facilitate dialogue between the U.S. and Turkey, help overcome misunderstandings about Turkish energy policy, and help our countries coordinate messages to regional partners. He implicitly acknowledged that it would help to coordinate GOT energy policy as well. Apakan cautioned that he did not want a bureaucratic exercise, but rather an action mechanism to push our Caspian energy agenda forward. Special Envoy Gray expressed strong interest and hoped we could launch such informal mechanisms quickly.

European Commission Perspective

¶13. (C) EC Ambassador to Turkey Mark Perini told Ambassador Gray that Turkey and the EU face similar circumstances: rising demand for gas and a need for diversity. Perini said the EU recognizes Turkey's legitimate security of supply concerns and is working on a formula to bring new gas resources to Turkey and Europe. This is the genesis for the still nascent CDC buyers, consortium idea (reftel b). To work out some of the details and gain Turkey's buy-in, a Director-level Commission staffer will visit Turkey the week of July 14. Energy Commissioner Piebalgs will follow in late July. Asked whether forming a consortium of buyer companies to collectively buy gas from Turkmenistan or other Central Asian countries would break EU

ANKARA 00001286 004 OF 004

competition rules, Perini said a waiver from these rules might be possible. The CDC idea might bring to the table European Investment Bank and World Bank involvement that could help mitigate risk to investors by offering sovereign backed loans. DAS Bryza suggested a CDC might help mitigate commercial and political risk associated with a potential project to purchase offshore Turkmenistani gas at Turkmenistan's border with Azerbaijan by assuming the risk for Nabucco investors who might sanction Phase I of the pipeline in the hope that gas for later phases would be available in Turkmenistan. Perini agreed to consider the proposal, noting the EIB might be useful in this regard, but would probably require sovereign guarantees from EU member states.

¶14. (U) This message was cleared by Special Envoy C. Boyden Gray and EUR DAS Matt Bryza.

Visit Ankara's Classified Web Site at
<http://www.intelink.sgov.gov/wiki/Portal:Turkey>

WILSON